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Q2 2023 Investor Conference Call Transcript

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TELUS Corporate Participants

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Doug French - EVP & CFO

Zainul Mawji - EVP & President, TELUS Consumer Solutions

Jim Senko - EVP & Chief Product Officer

Jeff Puritt - TELUS International President & CEO

Navin Arora - EVP and President, TELUS Business Solutions

Sid Kosaraju - President, TELUS Health

Tony Geheran - EVP and Chief Operations Officer

Robert Mitchell - Head of Investor Relations

Analyst Participants

Jerome Dubreuil - Desjardins

Maher Yaghi - Scotiabank

Drew McReynolds - RBC Capital Markets

Simon Flannery - Morgan Stanley

Tim Casey - BMO

Vince Valentini - TD Securities

Stephanie Price - CIBC World Markets

Matthew Griffiths - Bank of America

Sebastiano Petti – JP Morgan

Presentation Transcript

Operator
Good day, and welcome to the TELUS 2023 Q2 earnings conference call. I would like to introduce your speaker, Robert Mitchell. Please go ahead.

Robert Mitchell - Head of Investor Relations
Thank you for joining us today. Our second quarter 2023 results news release, MD&A and financial statements and detailed supplemental investor information were posted on our website this morning.

On our call today, we'll begin with remarks by Darren and Doug. As usual, for the Q&A portion of our call, we will be joined by a range of other executive leaders, Zainul Mawji, Consumer Solutions; Navin Arora, Business Solutions; Jim Senko, Chief Product Officer; Tony Geheran, COO; Jeff Puritt, President and CEO of TI and Sid Kosaraju, President of TELUS Health.

Briefly, this presentation and answers to questions contain forward-looking statements. Actual results could vary materially from these statements. The assumptions on which they are based and the material risks that could cause them to differ are outlined in our public filings with the Securities commissions including second quarter 2023 and annual 2022 MD&As. With that, Darren, over to you.

Darren Entwistle – President & CEO
Thanks Robert, and hello, everyone.

In the second quarter, our TELUS team once again demonstrated execution strength in our TTech business segment, characterized by the potent combination of leading overall customer growth, complemented by strong operational and financial results. The robust performance in our Communications Technology business continues to be underpinned by our globally leading broadband networks and of course, our customer-centric culture. This enabled our strongest second quarter on record, with total customer net additions of 293,000, up 19% on a year-over-year basis, driven by strong demand for our superior product portfolio and service excellence.

Our leading customer growth is reflective of our consistent industry-best client loyalty across both mobile and our fixed product lines. The TELUS team's passion for delivering customer experience excellence contributed to blended and postpaid mobile phone PureFibre Internet and residential voice churn all being below 1% yet again this quarter. Mobile phone churn is now in its 10th consecutive year of being less than 1%, and our PureFibre internet product has been below the 1% threshold now for 14 consecutive quarters. This is quite the unique combination that certainly bodes well for the future of the organization.

In the second quarter, we delivered strong consolidated revenue growth of 13% and resilient EBITDA growth of 5% in spite of the macroeconomic challenges impacting TELUS International. Alongside that, we generated strong free cash flow growth of 36%.

Let's turn now to have a look at our mobile operating results at TELUS. TELUS achieved leading wireless customer growth of 234,000 net additions in the second quarter. This included strong mobile phone net additions of 110,000, our best second quarter result since 2010. Notably, this strength was driven alongside our continued focus on high-quality and profitable customer growth. It also included record second quarter connected device net additions of 124,000, which were up 35% on a year-over-year basis. This reflects continued strong momentum with respect to our 5G and our IoT B2B solutions that are so critical for the future.

Importantly, our team delivered another quarter of industry best loyalty results, which continues, of course, to be the hallmark of the TELUS organization and is emblematic of our customers' first culture in action in terms of the empirical results it generates. Blended mobile phone churn was an industry low 0.91%. Moreover, our industry-leading postpaid mobile phone churn of 0.73% represents the 10th quarter out of the last 14 that we have earned a customer loyalty rate below 0.8%. This clearly distinguishes TELUS from our competitors and indeed, it is a result that is unsurpassed in North America with a churn rate that is amongst the lowest globally.

Our consistently strong performance is powered by our highly engaged team who passionately deliver superior service offerings and digital capabilities over our world-leading broadband networks, offering customers the fastest, most expansive and most reliable service in Canada.

To close on mobile, industry-leading second quarter ARPU growth of 1.8% over last year was supported by roaming improvements as a result of increased international travel. It was also buttressed by higher domestic monthly recurring revenue as well as our industry-best churn rates, whereby we are retaining our highest value customers in addition, of course, to growth in connected devices and IoT revenues. This once again drove strong industry-best organic network revenue growth of 6% in the quarter.

Notably, our leading mobile phone lifetime revenue continues to exceed our national peers by up to 70%. This has been a consistent story at the TELUS organization for a very long time. This is reflective of the combination of our continued focus on high-quality customer growth and leading client loyalty delivered consistently as is the hallmark of our company.

Turning now to our fixed operating results where TELUS delivered industry-leading second quarter wireline customer growth. Our team achieved leading internet net additions of 35,000 in the quarter, up 3% on a year-over-year basis, powered by leading customer loyalty in combination with the significant advantages of TELUS' extensive PureFibre network.

We continue to drive leading growth in our TV product line with net additions of 17,000, which was up 13% on a year-over-year basis. Furthermore, residential voice losses were again an industry-low at 8,000 and were relatively flat over this time last year.

Notably, this leading performance reflects our continued momentum with respect to multi-product intensity and the inherent churn benefits that have been so consistently successful for the TELUS organization. Healthy and leading security net additions of 15,000 further reflect our successful strategy of driving profitable customer growth and multiproduct penetration.

Overall, we drove robust and industry-leading external fixed net additions of 59,000 in the second quarter. This performance is indicative of the strength of our unique and highly attractive bundled offerings across our truly unmatched portfolio of products and services, buttressed by our ever-expanding, globally-leading PureFibre and 5G networks, all wrapped within our customer-centric culture.

Indeed, the generational investments that we've made in the global best network technologies are the cornerstone of our leading customer growth and the significant ongoing profitable market share gains that we have driven over so many years and will continue to do so on a go-forward basis. Furthermore, these investments will continue to drive important and extensive socioeconomic benefits for our communities and Canadian citizens for many, many, many decades to come.

Let's turn now and take a look at TELUS Business Solutions. Our team within TELUS Business Solutions continues to deliver on its track record of contributing meaningfully to the success of the wider TELUS organization. Notably, this includes delivering another strong quarter with 6% revenue growth and profitable EBITDA contribution growth across our B2B product lines. This is enabled by a team that is absolutely dedicated to propelling its position as one of the leading B2B organizations on the planet, and it's a story of differentiation at TELUS versus our peers.

During the quarter, our team secured several notable wins to bring our highly differentiated assets and capabilities to meet the evolving needs of our customers. This included a significant deal to deploy our intelligent smart building technology that will modernize retail operations for H&M, one of the world's leading retailers.

We recently moved our TELUS Agriculture & Consumer Goods business, or TAC into TBS. This will clearly support enhanced efficiency and effectiveness measures and is reflective of our collective commitment in respect of realizing quantum growth in our compelling TAC business.

Second quarter TELUS Agriculture & Consumer Goods revenues of $79 million were relatively flat on a year-over-year basis, and this disappoints us. It reflects headwinds in our agribusiness vertical due to softness related to macroeconomic challenges and as well it reflects onetime professional services revenues that were realized in the second quarter of 2022. We continue to expect progress on our top line and to see that flow through to profitability in this business for the second half of 2023, resulting in positive annual growth. The TELUS Agriculture & Consumer Goods team will leverage the expertise, they'll leverage the experience, and they'll leverage the high-performance culture and talent of our TBS team, ensuring that we are well positioned to accelerate our customers for sales, marketing, channel and holistic go-to-market efforts, including exciting and plentiful cross-selling opportunities.

TELUS remains steadfast in our objective to accelerate and significantly scale our TAC business into a potent asset of consequence focused on becoming the world's largest global independent provider of digital technologies and data insights, connecting customers, from producers to consumers, across the agricultural products, food and packaged goods industries.

Let's turn now and take a look at our TELUS Health business unit. We achieved second quarter revenues of $428 million in TELUS Health, up 212%. Notably, when normalizing for LifeWorks, EBITDA grew by 11%. These results reflect the continued growth and increasing scale of our health operations since our acquisition of LifeWorks in 2022 enabling us to make meaningful progress on our goal to be the most trusted, well-being company in the world.

And this includes covering more than 68 million lives around the world with our health care services and health care programs, an increase of nearly 46 million on a year-over-year basis. It includes supporting health outcomes on nearly 153 million digital health transactions during the second quarter of 2023. This was up more than 5% over the same period a year ago. It includes increasing our virtual care membership to 5.3 million, up nearly 50% over the prior year. We expect TELUS Health to continue its sustained growth and a sustained expansion underpinned by the integration and innovation of our diverse product suite and care delivery that enables us to support the evolving needs of our customers around the world.

Importantly, since acquiring LifeWorks, our team has now committed to driving $425 million in annualized synergies by the end of 2025, up from $250 million. This includes $325 million expected to be realized through operating cost synergies from continued integration, continued optimizing of our organizational structure, systems and, of course, optimizing the real estate portfolio of TELUS Health within the wider TELUS fold.

Furthermore, we expect to drive at least $100 million from revenue synergies over the same period, fueled by cross-selling health services and the potent products that we have within our portfolio to our TELUS Health customer base, but also across the wider TELUS portfolio of assets. The realization of these synergies will allow us to reinvest in the growth of the business and improve our profitability, whilst we focus on delivering efficient, effective, secure and truly best-in-class health and wellness solutions to our customers. Notably, to date, we've achieved $127 million in combined annualized synergies towards this overall objective of $425 million.

Now let's take a look at TELUS International. As we announced in July, increasing macroeconomic pressure has temporarily impacted service demand from some of TI's larger tech clients as they aggressively address their own cost structures, slowing expected revenue and profit growth for 2023.

In response, our TI team has actioned significant incremental cost efficiency programs including staff reductions to address lower service volumes. TI, importantly, is also driving additional automation and generative AI-enabled solutions to further optimize its cost structure, and of course, its go-to-market sales opportunities, which are significant. Despite these near-term challenges, we at TELUS remain highly confident in TI's strategy, the team and their investment thesis.

This is amplified by meaningful opportunities in respect of digital transformation, particularly within generative AI adoption and the continuing critical importance of differentiated digital customer experience solutions in the market, which remains a vibrant tailwind for TI's medium- and long-term growth and profitability. Doug will provide further commentary on both TTech and TELUS International's second quarter results in just a moment.

Before I close, let me turn to the significant investment which we are announcing today in an extensive efficiency and effectiveness initiative across TELUS. This is against the backdrop of rapid transformation in our industry and the ways in which our customers want to engage with us. Furthermore, it is in response to the evolving regulatory, competitive and macroeconomic environment that we currently face and where we want to realize success within.

Importantly, the transformational investments that we are prudently making now are building upon the sanguine investments that TELUS has made over the course of two decades in building the best culture and enabling industry-leading customer experiences over our globally-leading wireless and PureFibre broadband networks, and they are allowing us to accelerate our well progressed plans to digitally revolutionize our business and further streamline operating costs meaningfully that bodes so well for the future success of this organization.

The generational investments we have made are fueling significant economic efficiencies and will ensure we remain market leaders in driving innovation and value for our customers, realizing profitable growth for our shareholders and supporting our team members and the communities within which we live, work and serve.

The accelerated program we are announcing today will yield expected cumulative annual cost savings of more than $325 million. Building smartly upon the terrific digital progress that this organization has made on a leading basis over the last few years, aided and embedded by the TELUS International organization.

Whilst this investment will temporarily dilute our strong free cash flow in 2023, importantly, it will support stronger free cash flow expansion in the years ahead as well as the progression and affordability of our leading multi-year dividend growth program.

Given the scale of this incremental program, it is with a heavy heart that we are proceeding with 6,000 staff reductions across our global footprint, including approximately 4,000 in TTech and 2,000 at TELUS International including offering early retirement and voluntary departure packages. As a result of these extremely difficult decisions, we now expect incremental restructuring investments of up to $475 million in 2023.

Our winning strategy at TELUS remains unchanged and our transformational efforts will be buttressed by our decades long track record of successfully navigating exogenous factors from regulatory and competitive to macroeconomic and most recently, through the global pandemic, where we distinguished ourselves so admirably.

Our resilience and ability to embrace change and continuously evolve the way we operate are cornerstones of our TELUS culture and the technology that we deploy in combination. And these two things will continue to fuel our future and all the success that we will realize.

In closing, I'd like to extend my sincere appreciation to our more than 80,000 team members, retirees, family members and friends who have collectively volunteered in 260 communities across 32 countries, thus far for our 18th annual TELUS Days of Giving making 2023, our most giving year yet. Indeed, since 2000, our TELUS family has contributed 2.2 million days of volunteerism, more than any other company in the world, helping to improve the lives of people across the globe that need a helping hand.

Myself, our leadership team and the TELUS Board of Directors remain exceedingly grateful for our team's passionate efforts to support our global communities as we strive to deliver outstanding results for all of our stakeholders, exemplifying our world leadership in social capitalism. And on that note, I'll hand the call over to Doug.

Doug French – EVP & CFO
Thank you, Darren, and hi, everyone.

Mobile network revenue increased by 6% year-over-year, our 9th straight quarter of strong year-over-year growth, driven by high-quality customer additions, which has been supported by record population growth, along with higher mobile ARPU.

Our growth has been also supported by our superior product bundling across home and mobile, customer service excellence and globally-leading networks. Our ARPU growth of 1.8% in Q2 reflects the continuing roaming benefits, however, at a lower level as we lapped the Q1 recovery. We anticipate roaming to remain a positive contributor to growth in Q3 and Q4, but in smaller increments.

Despite a highly competitive operating environment, particularly in the flanker space, we delivered positive year-over-year growth in domestic ARPU in the second quarter, reflecting high-quality loading and strong base management. As we progress through the back half of the year, we are targeting ARPU growth approaching 2% for 2023.

Fixed Data Services revenue growth grew by 6.2% year-over-year, driven primarily by strong customer growth across internet, security and TV and higher revenue per internet customer. Within fixed, we also achieved strong B2B growth of 5%.

Our leading fixed customer growth reflects our superior bundled offers and our leading PureFibre network. Customers are continuing to move to our higher internet speed tiers, recognizing the superior customer excellence of our PureFibre network, the compelling value of symmetrical speeds and the value and reliability of our leading portfolio of bundled offerings.

On the B2B front, inclusive of both mobile and fixed services, we continue to see positive financial results with revenue and EBITDA contribution up year-over-year.

Health revenue increased by $291 million in Q2 over last year, primarily reflecting the contribution of LifeWorks as well as organic growth. EBITDA contribution in our health business area continues to grow steadily, along with margins in the mid-teens, which we anticipate to increase over time.

As part of our broader cost efficiency program, our health team is improving their cost structure as we actively complete the LifeWorks integration. Longer term, we continue to anticipate meaningful health revenue synergies from cross-selling opportunities and continued margin expansion, benefiting from the cost optimization.

Overall, TTech revenues were up nearly 14% over last year, and adjusted EBITDA grew by 8.1%.

In TI, we pre-released the second quarter results on July 13. Operating revenues from external customers were higher by 7.6% year-over-year, driven by additional services provided by existing clients and new clients, including those from our WillowTree acquisition. A strengthening of the U.S. to Canadian dollar exchange also benefit the DLCX revenue growth.

DLCX adjusted EBITDA was down 19%, consistent with the pre-release last month — earlier this month, primarily due to the reduction in service revenues from larger tech clients combined with higher service delivery costs in our AI business. These imbalances are due to the timing of some of the European labour reduction regulations and will be part of our future cost reduction initiatives.

Our TELUS TI team remains firmly focused on managing through these near-term headwinds with a keen eye on efficiency and effectiveness in order to support their margin and cash flow generation.

Overall, consolidated operating revenues increased by 13% year-over-year, and adjusted EBITDA grew by 5%. Consolidated net income and EPS were both down approximately 60% due to higher depreciation and amortization from our growing asset base, including LifeWorks, WillowTree and our generational investments in PureFibre and 5G networks.

Macroeconomics, notably our DLCX operating segment, also impacted EPS and higher financing costs from our higher debt outstanding, reflecting the investments in our growth strategy as well as higher interest rates. In Q2, net income and EPS were also impacted by higher restructuring costs, as it relates to our cost efficiency initiatives.

Free cash flow of $279 million increased 36% year-over-year, primarily by lower capital expenditures and higher adjusted EBITDA. This was partially offset by the increase in cash interest paid, higher restructuring, primarily due to the lump sum payments from the ratification of our TWU agreement and our ongoing efficiency programs.

As announced on July 13, we revised our annual target for consolidated revenue and adjusted EBITDA to reflect TELUS International's updated outlook. Notably, the implied annual financial target for our TTech operating segment remains unchanged.

Today, we updated our 2023 free cash flow guidance to reflect the higher expected restructuring disbursements related to the accelerated cost efficiency programs throughout all parts of our organization. While these decisions are difficult to undertake, they reflect our innovation for our customers, and are required to address the pressures from the current regulatory, competitive, macroeconomic environments while embracing our significant digital progression.

Restructuring costs are now anticipated to be up to $750 million for the full year, an increase of $475 million from our original assumption. As Darren highlighted, the annual cost savings from the incremental accelerated program are anticipated to be approximately $325 million for the full year and about 80% of that will be to the TTech segment. Of the $325 million, we anticipate a small portion of the benefits to begin accruing in the back half of this year.

Consistent with our capital plan, we anticipate approximately 85% of our annual capital expenditures of our $2.6 billion target to be in the first three quarters of the year and we reaffirmed our $2.6 billion guidance for the year on CapEx. The expected decline in our capital program in Q4 is aligned with our seasonal build plan.

Our growth profile and robust balance sheet position and our well-established dividend program will continue into the future. The initiatives we take today will be supporting all of that. We will continue to focus on executing our cost efficiency and effectiveness opportunities, driving down our cost structure on a permanent basis.

With that, we'll turn it over to Robert for the Q&A.

Robert Mitchell - Head of Investor Relations
Thank you, Doug. Fredrick, could we please proceed with questions?

Question and Answer Period

Operator
First question comes from Jerome Dubreuil of Desjardins.

Jerome Dubreuil - Desjardins
First one I have is I'm interested in the digitization of your operations. Obviously, you've invested a lot in this over the last few years. Do you believe that you're a bit in advance in terms of your digitization versus what global peers might have done?

Darren Entwistle – President & CEO
Jeff, why don’t you take that and I’ll top up if necessary.

Jeff Puritt – TELUS International President & CEO
Yes. I think there's no doubt at all that the impact our digital transformation is having and has had on the business has given us a competitive advantage. I think it does two things concurrently, and historically, I think these have been perceived to be mutually exclusive, but we've demonstrated that's not the case.

One, it has meaningfully improved the cost to serve in terms of driving efficiency and effectiveness in those systems that we rely upon to support our customers. And then equally importantly, I think it's improved the client experience by making it easier for them to do business with us, to procure our products and services, to request changes, adds, additions, et cetera. And as a consequence, that's driving better adoption, increased subscriber net adds, increased share of wallet and lifetime average revenue. So I think it is beyond contestation that having been an early adopter of digitally enabled interactions with our team members and our customers gives us an advantage in the marketplace.

Darren Entwistle – President & CEO
Without the investments and progress that we've made on the digital front, the AI front and currently and prospectively the generative AI front, we would not be capable of realizing the cost efficiencies that we articulated today. We're realizing these cost efficiencies and looking to contemporaneously increase the service quotient of this organization. And I think that's a huge competitive differentiator for TELUS versus our peer group and the relationship between TELUS and TI has been absolutely key to realizing this position and what it portends for the future.

Jerome Dubreuil - Desjardins

Great. And second one, you've updated your guidance in mid-July. Now you're updating it again this time. Has anything changed since mid-July? Or is it just that the restructuring decision and paperwork had to be done after?

Darren Entwistle – President & CEO
Doug, why don't you go on this one?

Doug French - EVP & CFO
Yes. Nothing has changed from the perspective of two weeks ago. It was, in essence, bringing this forward with the overall story and execution of our results. I think it would have been hard to do that in a pre-release and so we wanted to have the fulsome picture of our overall operating results concurrent with the restructuring initiatives and finalizing those to the extent we discussed today.

Operator
The next question comes from Maher Yaghi of Scotiabank.

Maher Yaghi - Scotiabank
I would like to start just by asking a question on your leverage and capital allocation priorities. Over the last year, we have seen your leverage go from 3.2 to 3.8. I mean you invested heavily in Capex for sure and also in acquisitions. This ratio is now above your long-term range. Can you help us understand the expected pace of the decline that you think this ratio is going to take, especially given the upcoming spectrum auctions coming up? Any targets on leverage that you can share with us here?

And just a follow-up after this question. You have supported TI in several ways, more recently through a couple of stock buyback acquisitions. Can you provide us some understanding as to how much more you are willing to support TI, specifically when it comes to stock acquisition? This is a question that keeps coming up with investors, and I think some clarity on that would be helpful.

Darren Entwistle – President & CEO
Okay. I'll let Doug take the first part of the question, and I'll top up on the second part.

Doug French - EVP & CFO
I think when you look at our industry-leading EBITDA growth and the fact that we've been coming to the end of our accelerated capital spend in this year's, the decrease in capital spend was a good example of that. You're going to see that capital continue to be moderated into the future with even the initiatives we talked about today on bringing down our long-term cost structure for enhanced margins. We have full confidence we're going to delever very well into the future on free cash flow, and that these initiatives, if anything, will solidify an even stronger balance sheet into the future. So when you look at the growth areas we have, confidence in EBITDA growth and value generation are consistent with the demand on Capex going forward coming down.

Darren Entwistle – President & CEO

I think it's pretty clear that TELUS is now in a period where the sources of cash will chronically exceed the uses of cash, and that bodes well for the balance sheet of the organization as well as our strategic positioning from an investment thesis. Secondly, as you would know, Doug and the team have done a superb job timing the balance sheet of the organization with the investment profiles that we have undertaken in areas like fibre and 5G. We've got an average term to maturity on our debt profile of 11 years. And our cost of debt is quite attractive, just a touch over 4% and of course, that debt is tax effective given the tax paying position of this organization.

In terms of TI, yes, we have made investments in TI on the edge in the past. We've done that because we have a high degree of confidence in the TI organization and its growth prospects. But it's not just because we are confident in its external growth prospects, we recognize critically, as we've just spoken to, that TI is a critical enabler of TELUS' growth strategy, supporting everything that we're doing from customer service excellence to the digital transformation of our organization that put us in such a strong position. We, as an organization, believe, as you would expect, that TI is significantly undervalued. And as it deals up, the macroeconomic challenges in front of it, with the right moves, the medium- and longer-term prospects for the organization are exceedingly strong. Having said that, we expect TI to stand on its own two feet and that's policy.

So in terms of answering or fielding any questions that you're getting in that regard, we do not intend to buy TI back into the TELUS organization. Anything that we might do would be entirely opportunistic and only around the edges. We expect the organization to stand on its own two feet and drive growth. And we think that the organization, particularly post the efficiency measures that they're now implementing is going to have a fantastic platform for future growth and a very eager anchor tenant within the TELUS organization, but tremendous prospects on an external basis, particularly leveraging what we think are terrific accelerators for TI in respect of generative AI and how uniquely the TELUS International organization is positioned in that regard. It's also a huge opportunity for TI to productize the success that has helped drive at TELUS and drive those solutions, not just across the comms and media sector, but on a wider basis within its external client perimeter. So that's policy, TI will stand on its own two feet, and I think the future will be very bright.

Operator
Next question comes from Drew McReynolds of RBC

Drew McReynolds – RBC
Just two for me. First, I guess, maybe for you, Doug, on the restructuring. Obviously, I think you're the only one that includes this in free cash flow guidance and everyone is restructuring so there shouldn't be any surprise there. But it feels a little bit of back foot, front foot. There's part of this that is required probably, because of some cost inflation, but also front foot, because of your ability to be ahead of the curve and digitize. So maybe comment if that's correct.

And then just secondly, on the $325 million in run rate annualized savings, how should we think about that flowing through in 2024? I think by our calculation, it's about 500 basis points of year-over-year EBITDA growth, but I'm sure it's not assimple as adding that in 2024, because there's other things that I'm sure will offset. So just setting expectations here just broadly on that front.

Darren Entwistle – President & CEO
Alright, Doug, go for it.

Doug French - EVP & CFO

Thanks, Drew. So we do plan to execute a majority of the plan within 2023. There are some other restructuring initiatives, though that do have a longer-term benefit and there would be some that would be, call it, multiyear in that payback such as the real estate rationalization as an example. And you are right, there will definitely be some give and take between the cost efficiencies versus other pressures within the market dynamics as highlighted by Darren earlier. So I would profile majority of it coming through in the early-to-mid part of next year, but balance through with some of the items that we've talked about - lapping roaming as an example, you'll see that will slow down into 2024 as we lapped the COVID uptick and then it's declining and have less of an impact into the future. And that's just one example of where you'd see that partial offset. But when we look at it, it is a long-term plan. It is looking through the initiatives in front of us and driving the efficiency savings as quickly as possible is definitely our desired outcome.

Operator
Next question comes from Simon Flannery from Morgan Stanley

Simon Flannery - Morgan Stanley
Great. I wanted to talk a little bit more about competition. I think you talked about increased flanker competition. Perhaps you could just characterize that? And do you think this is a temporary or longer-term change? And to what extent is there risk of trade down from the premium plans? And maybe specifically in the West, we've had several months of Shaw and Rogers integration, you put up some good KPIs. But what are you seeing on the ground there? Is there any real change in the competitive intensity on the converged product set out West?

Darren Entwistle – President & CEO
Thanks Simon. Jim, Zainul, why don't you hit that one?

Jim Senko – President & Chief Product Officer
Okay. Why don't I go first. The headwinds, I think, are pretty well known. But we're also seeing some good tailwinds. So Bring Your Own Phone customer growth is strong, and that's growth without device subsidies. 5G plus is holding its value versus 5G and 4G. And we're seeing bundling accelerating, especially not just in the West, but we're also seeing good bundling opportunities in Eastern Canada, now it has been great.

Look, we're pleased with how we navigated Q2. We had our best new customer growth since 2010. We're the only major carrier sustaining ARPU growth, continued churn leadership, significant industry lead on customer lifetime value. Our roaming growth is 145% versus pre-pandemic. So those were all solid. Bundling 5G plus family discounts are protecting our premium customers. We're sustaining our customer renewal volumes with the year-over-year step up. So we've been able to manage our margins in areas like access points to device subsidies. We relaunched Public Mobile balanced customer growth and margins. So 100% digital, 100% redesigned for simplicity. The cost to serve at 6x lower than TELUS allows us to meet prices while maintaining premium margins. And I think going forward, we're confident in our prospects for continued best, backed by our consistent strategy, really best network and customer experience, bundling, focus on execution. We anticipate ongoing subscriber strength from the growth in immigration and from product intensity. We continue to manage our margins with a thoughtful mix of digital, Bring Your Own Phone and access points to device subsidies. We actually believe the retail flanker 5G price points will drive step ups, especially from the growth we're getting on BYOP newcomer growth. So that we see as a positive and then 5G plus, bundling, Bring-It-Back, family discounts are all holding and attracting our premium customers. So we continue to expect a full year ARPU growth, and we're very, very relentlessly focused on customer margin. Zainul, I don't know if you want to top up.

Zainul Mawji - EVP & President, TELUS Consumer Solutions
Yes. Maybe I will add a few points with respect to the West, as you highlighted there, Simon, and the competitive intensity. So to build on Jim's point, we're going to be ultra focused on AMPU driving wallet share and product intensity. And the customer loyalty that we continue to build on and garner as well as the superiority of our network capabilities and also the real product differentiation we're able to offer our customers from areas like home security and automation at consumer health are absolutely unique in the market. And so those are areas where we're continuing to see the opportunity to grow wallet share and grow our customer loyalty and affinity. And so in terms of what we're seeing in the competitive environment, we're really seeing consistency with respect to how we're executing on our strategy from the get-go. You're seeing us able to monetize some of the elements of our strategy from a cost takeout perspective and the digitization perspective. But to Darren's earlier point, that's been on the back of foundational investments we've made in both the network and the digital side.

And it's also enabled our ability to do rapid product development and rapid go-to-market for our new product capabilities. And so that's serving us incredibly well. So we're continuing to see strong output on the back of our PureFibre 5G bundling. We see better wallet share and customer household growth and better loyalty as well as better cost-to-serve across the board, and we're just heads down and focused on continuing to drive that strategy and seeing, as you've seen in our results, continued traction in that strategy.

Darren Entwistle – President & CEO
It’s pretty simple, Simon, a five-point strategy that you'll see from this organization quarter in, quarter out, which is leverage best network, leverage best customer service, leverage best product portfolio, leverage best channels and digital capabilities and leverage best cost base, that's the five-point.

Operator
Next question comes from Vince Valentini from TD Securities.

Vince Valentini – TD
First, sorry, if I missed it. The cost savings from the new restructuring program. I didn't see anything in the TELUS International release, but it's a public company, so I assume they have to provide some numbers. So hopefully, you can help us out how much of the $325 million will be on the TELUS side versus the TI side?

Jeff Puritt – TELUS International President & CEO
So I think we did actually reference that in our call earlier today, Vince, it was $40 million in year. And that's USD, not Canadian.

Vince Valentini – TD
Annual run rate.

Jeff Puritt – TELUS International President & CEO
No, in year.

Vince Valentini – TD
That's restructuring, sorry, okay. Yes, so USD 40 million out of the CAD 475 million restructuring costs is on the TI side. Do you have a similar figure on the $325 million ongoing operating savings?

Doug French - Executive VP & CFO
About 20% of that was TI.

Vince Valentini – TD
So I want to ask that first because my follow-up would be, if I take 80% of that $325 million, and then I take the new very impressive synergy target you're throwing out on LifeWorks getting up to $425 million by the end of 2025. Even with, before we even add $1 of revenue growth, is it safe to assume that the EBITDA run rate in 2025 is to surpass $600 million, higher than what we're seeing this year?

Doug French - Executive VP & CFO
I think Vince, we will update guidance for next year as appropriate. I think Drew's question on some of the offsets that may happen, including ARPU and some of the other pressures on the market side would potentially be a bit of a volatility factor that this is going to hedge against. So I think the cost savings here, yes, down the path you suggested, but I think there's other initiatives that we'll balance as we look into 2024, but we're expecting to still have industry-leading growth as you're implying.

Darren Entwistle – President & CEO
And the efficiencies will be holistically lucrative.

Operator
Next question comes from Tim Casey from BMO

Tim Casey - BMO
Thanks. Two questions. One, I'm wondering if the challenges you've had at TELUS International, how that is influencing how you're approaching TELUS Health and its path to some sort of corporate event? And second, we are getting questions on how you're thinking about your dividend growth plan in your three year commitment to 7%. Wondering if you could frame that in light of, I guess, the headwinds in TELUS International, but your announcement today of restructuring and restructuring savings going forward?

Darren Entwistle - President & CEO

Okay. Let me kick it off with TI and TELUS Health to very explicitly answer your question, Tim. I think TI despite what's transpired in Q2 remains an exemplary model for TELUS Health. The TI organization has had an excellent track record of success historically and has surpassed expectations on many instances in the past, leading up, at and post the IPO process. I think TI's track record of success on differentiation, product development, client affinity has been absolutely key for that organization. And the duration of the success, I think, is quite telling in that regard. So the hiccup that has transpired in Q2, does not diminish TI, I think, is the right model as it relates to TELUS Health. And one of the other key attributes of TI's success is the duality of their performance in terms of both organic growth and smart inorganic moves that were well integrated and significant value was created from those acquisitions. And I think that is, again, a good model for the TELUS Health organization to follow.

Our expectations of TELUS Health remain undiminished. And if anything, I would say they're emboldened and accelerating. The other thing that is clear and maybe we need to make it more clear, is TI is not just a terrific enabler of TELUS on everything from customer service to digital progression, but TI is a significant enabler to TELUS Health itself. As TELUS Health goes through its improvements on cost efficiency, customer service excellence, product development and digital and gen AI progression, they will be aided and embedded by TI every single step of the way. And of course TI, which focuses on the health vertical as well, we'll take those capabilities and not only serve TELUS Health well, but productize them within the overall external market. And so I think that's quite a compelling composition, and we're very much looking forward to realizing the synergies that we've articulated for TELUS Health at the $425 million level, where we've highlighted $325 million of hard synergies in terms of key efficiencies that TI will be supporting along the way to make sure that we deliver against that $325 million number. And I look forward to significantly improving upon the $100 million of revenue synergies from the plentiful cross-selling opportunities that we have.

Doug French - EVP & CFO
And on the dividend growth side, if anything, the initiatives we talked about today will solidify our passion to continue that going and our commitment to keeping that going. Our decisions are off of free cash flow, and to Darren's point, in our discussion of free cash flow will accelerate as we move into the future, we don't see our commitment to that changing at all.

Darren Entwistle - President & CEO
Quite the reverse.

Operator
Next question comes from Stephanie Price from CIBC.

Stephanie Price – CIBC
I just want to get your thoughts around capital allocation between the base business and TI and the growth businesses. As you noted, free cash flow is expected to accelerate from here. I'm just curious how you're thinking about where that margin should go. And then I've got another question.

Darren Entwistle - President & CEO

So if you look at the preponderance of our capital composition, how we've executed discretionary decisions on capital allocation. Firstly, TI has to stand on its own two feet, leveraging its own balance sheet and its own transaction currency, which is why we're interested in valuation improvement for that organization. For TELUS, I think it's been fairly transparent the big consumers of capital, which I think have paid off handsomely, and you can see it in the best-in-class operating results that we have generated. Number one, we have invested and we'll continue to invest in wireless network technologies from 4G-plus to 5G to 5G-plus and of course, the spectrum that fuels our capacity along the way.

Second, you'll see us continue to invest in PureFibre broadband with its attendant attributes of product intensity realization significantly above three, a cost-to-serve in terms of the external network that's 70% better than copper, revenue per home that's 20% better than copper, a margin per home that's 25% better than copper and a churn rate that's 20% better than copper. You'll continue to see us make those investments.

Number three has been our focus on digital, digital progression, digital transformation, AI and generative AI, moving that continuum along the way. We wouldn't be able to do what we're doing today in terms of staff level efficiencies without what we've done over the last 36 months in that regard. And that's a really critical factor for us, because to be able to make those moves and because of our digital competency and capabilities set to not miss the beat in our go-to-market operations or our customer service excellence, I think, is a really distinguishing story.

Fourth area for us is success-based capital. And this is demonstrably within the core business of this organization. And you can see it reflected within our operational loading features. And then the last area is supporting the growth of our data-centric businesses, data-centric businesses on health. And if you look at what's happening around the world today, the efficacy of what we're doing on data insights on health or data insights on Ag or data insights on consumer packaged goods is stronger today than what it's ever been. And so that's where we will be focusing the preponderance of our capital. And I think what we have spent and how we have spent it from a composition point of view historically is prescient in terms of what you can expect us to do prospectively.

Stephanie Price – CIBC
Thanks for that. And just a quick follow-up on the cost efficiency program. We've seen some headcount reductions from the telecom unit already. Just curious if you can talk a bit about the staff reduction goals for the telecom unit specifically?

Darren Entwistle - President & CEO
Yes. So the staff reduction goals are 4,000 within our TTech business, incremental and 2,000 within TELUS International and potentially some incremental steps on TI over the remainder of the year in terms of optimizing its staff levels within its organization. The 4,000 within our telecoms business or communications technology business is 4,000 incremental to the 1,000 that we already had within our base plan for 2023. So it brings the total to 5,000 within the TTech part of the business.

And we think that's the right quantum right now to support what we want to achieve in terms of profitability and cash flow for 2024 and 2025 and 2026. And I think it sets us up well. And when you look at that improved profitability because of those moves with a diminished capital appetite in 2024, 2025 to 2026. I do think that the lucrative efficiencies that I mentioned earlier and the way that they will buttress and amplify our EBITDA results within our TTech business in combination with a slowing capital consumption profile will be hugely generative to the cash profile of the organization, which is why I made the comment on our dividend growth model of ‘quite the reverse’. I think our dividend growth model is crystallized in a stronger fashion than what it's ever been in terms of delivering against our forecast and what our management's expectations in terms of the accretion of our dividend within the 7 to 10% range over the next 36 months. And it's not lost on me as a personal investor in TELUS that this is over and above the 6% yield that the dividend currently represents on our trading price.

Robert Mitchell – Head of Investor Relations
Thanks, Stephanie. Frederick, we have time for two more questions please.

Operator
Next question comes from David Barden of Bank of America.

Matthew Griffiths – Bank of America
It’s Matt sitting in for Dave. On my first question, you referenced the regulatory competitive and macro factors as sort of driving forces or influencing forces behind that cost efficiency program. I was wondering if you could add some context. Are you seeing this as kind of an increasing area of uncertainty as you're looking into 2024 and beyond? Or are those just stable factors that are always being considered that are just driving the need and the investment case for the digital transformation, and it's not an increasing level of uncertainty for you. And secondly, on bundling, which is referenced repeatedly and it's a source of strength for the organization. Is there any sort of additional color you could provide on where you are on that journey? How much is left? Which services you're finding the most traction bundling? Which ones might be growing in their bundling outlook? Just any kind of color on where that stands, would be helpful.

Darren Entwistle - President & CEO
Okay. Zainul, why don't I ask you to speak to the bundling front, and I'll kick it off with an answer on the regulatory side of things. Firstly, I think we've made an error in calling regulatory factors exogenous. Clearly, if we've learned anything over the last 23 years, regulatory factors are endogenous within our industry. And there's an aspect of development within the regulatory environment that seems to have characterized every single year that I have been with the organization. And that's just something that we have to live with on a normalized basis in terms of the strategy of this organization and the operating tempo. We are clearly, in terms of both magnitude and diversity, seeing every form of regulatory challenge over the past 20 years, hence, endogenous comment, and I do think that this organization has distinguished itself with a demonstrable track record that is truly second to none in processing these challenges, and in some cases, opportunities and moving the business forward with a terrific success. And that's no different than what's happening within 2023, whether it relates to mandated access components when it relates to the development of the MVNO model, whether it relates to facilities-based competition and the like.

I would say right now, all of those developments are just normalized within the overall TELUS strategy. And we get on with absorbing them, with mitigating them and with coming up with strategies to overcome those regulatory impediments to our business. And the most demonstrable example is what we have done today. When you look at the efficiencies that we're driving, they are preemptive in terms of how we see certain regulatory challenges evolving in the months and the years ahead, and we want to get ahead of it. Our ability to take cost out of the business today will prepare us to better absorb any regulatory impediment at T plus X and we're an organization that just wants to control our own destiny along the way. The other thing that we are doing is we will always tune our employment and our investment according to the regulatory environment. And if we are seeing regulatory challenges or impediments, that is going to see us diminish the job profile within the TELUS organization in response to that and/or also diminish the investment profile, we will put shareholder money to work in the areas that can generate the best return overall for our stakeholders.

And then thirdly, we challenge the regulatory environment by doing what we think is right for our country. And when you look at the affordability, the solutions that are out there now from wireless to wireline and do a deep dive on the value propositions of each of the three brands within our wireless ecosystem, clearly we are evidencing the affordability objective being met in a very fulsome fashion. We are also delivering a quality of service within our portfolio to Canadian citizens in terms of regulatory oversight that is second to none globally. We have the best networks and the best customer service on the planet.

And then the third axiom to our regulatory agenda is to invest in areas where there's a lighter regulatory touch, a benign regulatory environment or less regulatory intrusion and disruption. And clearly, when you see what we're doing with TELUS International and the growth prospects there, as that business returns to both double-digit revenue growth and margins that are well in excess of 20% or what we're doing globally with TELUS Health on the digital front or what we're doing globally with TELUS Agriculture & Consumer Goods on the digital front, leveraging data insights on a disruptive basis to drive growth within those industries. Those are areas that fall outside the yoke of the Canadian regulatory paradigm. And I think they will yield significant value creation for investors prospectively. So that is the regulatory theorem for this organization. And I think we have evidentiary documentation and empirical track record that says we've run that particular game plan well over the past two decades. Zainul?

Zainul Mawji - EVP & President, TELUS Consumer Solutions
So I think it would be overly simplistic to think about bundling from only a wireline, wireless perspective. I think we look at bundling across a journey. We have several brands. Some of those brands help us to identify new prospects that we can bring into our ecosystem, and then we look at the level of product intensity, and it's a self-fulfilling prophecy, because as you add products, and as you add other digital touch points into the customer's journey and into the household, you improve the economies of scope and scale, you improve the revenue and you improve the cost structure.

And so because we have such a significant breadth of products, as I highlighted across our home security automation, our online security, our consumer health portfolio in addition to the incredible products we have across our core services and our entertainment and other portfolios, we look at this from a perspective of continuous growth and that drives both revenue and cost-to-serve. And so as you look, even if you look at, for example, a newcomer journey, that customer's needs and that customer's desires in terms of what they need in their household is going to change over time. So there's a significant base management opportunity, and we look at the journey across the multitude of our products. We have the most products relative to our peers, and we're going to continue to build and deploy new product categories, some of which will be aligned to the product areas we're in and some of which will be net new areas that we can grow new digital relationships with our customers.

Operator
Final question comes from Sebastiano of JP Morgan.

Sebastiano Petti – JP Morgan

I just wanted to see if you can provide a bit more color on perhaps maybe the margin in TTech within the second quarter. Was there anything one-time in nature or anything we should be thinking about in terms of comps? And in the context of the back half trajectory, obviously, you have some LifeWorks synergies coming in, but you're also comping LifeWorks in September, beginning in September of last year. And so some of the puts and takes around that and how we should perhaps be thinking about underlying growth within TTech on an ex-synergy or ex-LifeWorks basis?

Darren Entwistle - President & CEO
Okay. Doug, will kick this one off.

Doug French - EVP & CFO
Yes. In the second half, there are a couple one time items from last year. We did have a total investment in LifeWorks, which on the execution of the deal created a gain and you would have seen that through and we disclosed that in the third quarter of last year. That would be our main one. There's a couple of small, called put option gains that occur periodically through quarters. It also would be in the second half of the year. But the total would be the main one to acknowledge for Q3.

Darren Entwistle - President & CEO
Would also be a mistake to, because of the lapping of LifeWorks, assume that the growth profile of Q4 relative to Q3 is significantly diminished. We are forecasting a more consistent performance across Q3 and Q4 in the second half of the year. So I would guide you in that regard.

Robert Mitchell - Head of Investor Relations
Thanks Sebastiano. Thank you everyone for joining us today. Please feel free to reach out to the IR team if you have any follow-ups. And for those in Canada, we wish you a wonderful long weekend.

Operator
This concludes the TELUS 2023 Q2 earnings conference call. Thank you for your participation. Have a nice day.